

Fiscal Management Division
Expenditure Audit Section
Auditor: Bill Hornstein

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Post-Payment Audit of Department of Information Resources



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EXECUTIVE SUMMARY

Audit scope

A sample of payroll, purchase, travel and refund transactions that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning June 1, 2012, through May 31, 2013, was audited to determine compliance with applicable state laws.

The audited agency or institution of higher education receives appendices with the full report that may include a list of the identified errors and an errors projection to estimate the amount of improperly paid transactions. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in the attached report. DIR should implement the recommendations listed in the Detailed Findings of this report. It is DIR's responsibility to seek refunds for all overpayments unless DIR determines it is not cost effective to do so. If necessary, the Texas Comptroller of Public Accounts (Comptroller's office) may take the actions set forth in Texas Government Code, Section 403.071(h) (Vernon 2013), to ensure that DIR's documents comply in the future. DIR must ensure that the findings discussed in this report are resolved.

Texas law requires the Comptroller's office to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Overall conclusions

Minor findings were identified regarding purchase orders being created without an invoice, improper reimbursement of travel outside of designated headquarters, lodging exceeding the allowable rate, an employee retaining the ability and security to expend funds after termination and control weakness over expenditure processing.

Generally, DIR managed its expenditures in accordance with governing requirements. However, certain processes could benefit from further review in order to improve compliance with the laws and rules that govern expenditures.

Payroll transactions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), [Texas Payroll/Personnel Resource](#) and other pertinent statutes.

- No issues were identified.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes.

The audit identified:

- Six purchase orders created after invoice.

Travel transactions

Travel transactions were audited for compliance with the GAA, [Texttravel](#) and other pertinent statutes.

The audit identified:

- Six instances of improper reimbursement of travel outside designated headquarters.
- One instance of lodging exceeding the allowable General Services Administration (GSA) rate.

Internal security

The audit included a security review that entailed identifying any of DIR's employees with security in USAS, USPS, the Texas Identification Number System (TINS) or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

The review identified:

- One employee who retained the ability and security to expend funds after termination.

Internal control structure

DIR's internal control structure was reviewed. The review was limited to obtaining an understanding of DIR's controls sufficient to plan the audit and did not include tests of control policies and procedures.

The audit identified:

- One employee who has the ability to process expenditures without oversight.
- Two employees who can process and release payrolls without approval.
- One employee who can pick up warrants from the Comptroller's office and approve paper vouchers.

Prior post-payment audit and current audit recurring errors

We concluded a prior post-payment audit of DIR's payroll, purchase and travel transactions on March 2, 2010.

During the current audit, the following recurring errors were identified:

- Purchase order created after invoice.
- Control weakness over expenditure processing.

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DETAILED FINDINGS — PURCHASE

Purchase order created after invoice

Finding

We noted six instances in which the purchase order (PO) was created after the invoice. These were instances when the employee registered for a conference or training without notifying the accounting department beforehand.

Without issuing the PO and documenting it with the vendor prior to ordering the service, it becomes difficult for DIR to ensure that it is not overcharged or billed for the services beyond those DIR had agreed to purchase.

It is the general responsibility of a state agency and its officers and employees to “ensure that for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible.” See 34 Texas Administrative Code, Section 5.51(c) (1) (D) (2013).

Recommendation/Requirement

Whenever an employee needs to register for a conference or training, the employee needs to ensure that the accounting department is informed before the order is placed. The accounting department must prepare a purchase order prior to placing the order.

Agency Response

DIR agrees with this recommendation and understands that purchases must go through a requisition process before goods or services are purchased. The specific purchases (registrations and training) identified as being invoiced before the purchase order required payment at the time of registration. DIR will strengthen procedures to ensure that purchase orders are created prior to placing orders.

DETAILED FINDINGS — TRAVEL

Improper reimbursement of travel outside of designated headquarters

Finding

We noted several payments reimbursing a board member for travel to Austin for board meetings. The board member's designated headquarters was listed as Houston on the travel vouchers, while the reimbursements were for airfare and mileage expenses from Boston, Chicago and Colorado.

DIR stated that the board member's private employment requires him to spend much of his time away from his home. DIR believed it was allowable to reimburse him for travel from wherever he happened to be located.

Employees may only be reimbursed for travel expenses from their designated headquarters to the duty point unless the employee and agency could not have reasonably foreseen that the travel would be necessary.

See [Travel to a duty point or designated headquarters while on personal or compensatory leave in Texttravel](#).

Recommendation/Requirement

DIR may only reimburse an employee for the amount of expenses from the employee's designated headquarters to the duty point. If the employee travels from other locations to the duty point, the amount of his expenses greater than that from his headquarters to the duty point may not be reimbursed.

DIR must seek reimbursement from the board member for these reimbursements unless DIR determines that it is not cost effective to do so.

Agency Response

DIR agrees with this recommendation and understands that all employees and DIR board members must be correctly reimbursed for allowable travel expenses. DIR has implemented procedures to ensure that employee and Board member travel expenses are reimbursed in accordance with all applicable requirements. DIR will assess and determine if it is cost effective to seek any potential reimbursements of overpayments identified by the audit team.

Lodging exceeds GSA rate

Finding

We noted one travel payment which included a lodging rate greater than the allowable limit. The employee paid \$229/night for lodging while attending a conference. The GSA allowable rate is \$133/night for the location. DIR stated that it approved the rate paid because it was reimbursed by the vendor holding the conference.

A state employee who travels within the continental United States shall be reimbursed for the actual cost of lodging; however, the reimbursement may not exceed the maximum lodging rate for the employee's duty point based on the federal travel regulations issued by the Comptroller's office. See General Appropriations Act, 2009, Article IX, Section 5.06 (a) (IX-23). Also, see [Texttravel – Meals and Lodging](#).

Recommendation/Requirement

We recommend that DIR take steps to adequately review all vouchers submitted into USAS for reimbursement to ensure that only expenditures that comply with state laws and rules are included in the entries.

Agency Response

DIR agrees with this recommendation and is providing additional training to employees to ensure that lodging reimbursements fall within the allowable GSA rates.

DETAILED FINDINGS — EXPENDITURE APPROVALS

Employee retained ability and security to expend funds after termination/authority expired

Finding

During the audit period, DIR failed to notify the Comptroller's office about the termination of one employee who had been designated by DIR to approve its expenditures. The employee remained listed on DIR's voucher signature cards for six days after termination. This means that the former employee could have approved paper vouchers that were submitted to the Comptroller's office on paper during that time. Any payment produced by a paper voucher that was approved by the terminated employee would have constituted an unapproved expenditure. The employee also maintained USAS security for 11 days after termination, allowing the employee to approve electronic vouchers during that time. According to DIR, the employee remained on the signature card and USAS security due to oversight.

Whenever a designated employee terminates employment with an agency, the Comptroller's office must receive notification of the employee's termination no later than the fifth day after the effective date of the employee's termination. See 34 Texas Administrative Code, Section 5.61 (2013). Any officer or employee may send the Comptroller's office that notification. See Section 5.61(k)(3)(B). Additionally, Section 5.61 does not specify how the Comptroller's office is to be notified about designated employees' terminations. Therefore, the Comptroller's office will accept emails, faxes, letters, memos or other writings as long as the writings indicate that a designated employee has terminated employment and the notification specifies the effective date of the employee's termination.

When an employee's authority to approve an agency's expenditures is revoked for any reason, the employee's security profile must be changed not later than the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency. See 34 Texas Administrative Code, Sections 5.61(k)(5)(A)-(B) (2013).

Recommendation/Requirement

DIR must ensure compliance with the preceding requirements. It must also ensure that the person responsible for sending these notifications to the Comptroller's office is aware of the designated employee's termination on or before the termination becomes effective and follows through with the Comptroller's office to ensure receipt of the notification and that the revocation occurred.

Agency Response

DIR agrees with this recommendation and has taken measures to improve its process and controls around employee termination and removal of security access rights. The DIR Human Resources department updated its termination checklist to ensure that both the DIR Security Coordinator and the Comptroller's office are notified, according to Texas Administrative Code, Section 5.61, of terminated employees with access to USAS and a voucher signature card. The DIR Security Coordinator will notify and follow up with the Comptroller's office to ensure removal of access.

Control weakness over expenditure processing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that DIR placed on its accounting staff members' abilities to process expenditures. We reviewed DIR's security in USAS, USPS, TINS and its voucher signature cards that were in effect on July 10, 2013. We did not review or test any internal or compensating controls that DIR may have relating to USAS, USPS or TINS security or internal transaction approvals.

One employee can process and release payments through USAS without oversight. Two employees can process and release payrolls without oversight. One employee can pick up warrants from the Comptroller's office and approve vouchers. DIR received a schedule of this finding during fieldwork. Additional copies are available upon request.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregates each accounting task to the greatest extent practical. Ideally, no individual should be able to enter or alter and then release payments or other accounting transactions within the statewide financial systems without another person's involvement.

Recommendation/Requirement

DIR should review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight.

DIR should request that a preventative control be enforced for all of their transactions in USAS. If an agency requests the control, an edit will prevent the release of a document that the same user entered or altered. See the Fiscal Policy and Procedure (FPP) [USAS Accounting and Payment Control \(FPP B.005\)](#) that explains how agencies can reduce risks to state funds.

Agency Response

DIR agrees with this recommendation. DIR has increased controls over expenditure processing that segregate accounting tasks. The Accounting department has designated staff to enter transactions, designated staff to release transactions and a designated staff member to pick up warrants. Transactions are also reviewed by a supervisor and DIR has requested that the Comptroller's office enforce a preventative control in USAS for all transactions. The control will prevent the release of a document that the same user has entered or altered.